

Message Text

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14

ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15 IO-10

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CIEP-02 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 /115 W

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R 311528Z OCT 75

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC 6053

INFO AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY OSLO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS STOCKHOLM 5512

FOR EXPORT-IMPORT BANK

FOR COMMERCE

E.O. 11652: N/A

TAGS: EFIN, SW

SUBJECT: SWEDEN TO INCREASE FOREIGN BORROWING

REF: A. STOCKHOLM 4163

B. STOCKHOLM 5259

C. STOCKHOLM A-105

1. KRISTER WICKMAN, GOVERNOR OF BANK OF SWEDEN, TOLD MEETING OF BANKERS OCTOBER 24 THAT SWEDEN WILL NEED TO BORROW EQUIVALENT OF SKR 20 BILLION IN PERIOD 1974-76 TO FINANCE CURRENT ACCOUNT DEFICIT. SWEDISH FOREIGN BORROWING REACHED SKR 9 BILLION (\$2.1 BILLION AT CURRENT EXCHANGE RATE) IN FIRST HALF 1975. SINCE THEN IT HAS DROPPED, LARGELY DUE TO GOVERNMENT DESIGN, TO AVERAGE MONTHLY RATE OF SKR 300 MILLION. (FOREIGN UNCLASSIFIED

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BORROWING BEFORE 1975 HAS BEEN NEGLIGIBLE.)

2. WICKMAN DESCRIBED CURRENT ACCOUNT DEFICIT AS A CENTRAL PROBLEM FOR ECONOMIC POLICY. WHERE CURRENT ACCOUNTS OF OTHER INDUSTRIALIZED COUNTRIES ARE BEGINNING TO IMPROVE SWEDISH CURRENT ACCOUNT HAS WORSENERED WITH DEFICIT EXPECTED TO PLUNGE THIS YEAR TO SKR 9 BILLION FROM DEFICIT OF SKR 4.5 BILLION IN 1974. (GOVERNMENT'S NATIONAL ECONOMIC RESEARCH INSTITUTE HAS JUST PREDICTED A CURRENT ACCOUNT DEFICIT OF SKR 5.6 BILLION FOR 1976.) SHARP GROWTH OF DEFICIT HAS BEEN DUE TO FACT THAT SWEDEN IS OUT OF PHASE WITH MAJOR INDUSTRIAL COUNTRIES, EXPERIENCING STRONG DOMESTIC DEMAND AND EMPLOYMENT AT TIME WHEN ITS EXPORT MARKETS HAVE BEEN CONTRACTED, WICKMAN SAID.

3. GOVERNOR SAID WORSENING OF CURRENT ACCOUNT IN 1974 AND 1975 LEADS TO THREE BASIS REQUIREMENTS: (A) INCREASE IN INDUSTRIAL CAPACITY; (B) IMPROVEMENT IN COST RELATIONSHIPS WITH OTHER COUNTRIES, PARTICULARLY DAMPENING OF DEMANDS FOR HIGHER WAGES, IN ORDER TO PROTECT SWEDEN'S COMPETITIVE POSITION; AND (C) SCOPE FOR INCREASED EXPORTS THROUGH BRAKING OF SHARPLY INCREASED DOMESTIC CONSUMPTION.

4. WICKMAN WARNED THAT AT SAME TIME CREDIT MUST BE MADE AVAILABLE TO INDUSTRY, MONETARY POLICY MUST PREVENT TOO LARGE A BUILDUP OF DOMESTIC LIQUIDITY. PROBLEM IN THIS AREA IS GREAT. SWEDEN HAS LARGEST BUDGET DEFICIT IT HAS EVER EXPERIENCED (SKR 10.9 BILLION FY 1975). LIQUIDITY EFFECT OF DEFICIT BUDGET MUST BE NEUTRALIZED TO BRING ABOUT A CREDIT SITUATION THAT WILL MAKE FOREIGN BORROWING POSSIBLE AND COUNTER INFLATIONARY TENDENCIES. HE ADDED, HOWEVER, THAT LIQUIDITY DEVELOPMENT, DOMESTIC CREDIT ACCESS, AND INTEREST-RATE LEVEL WILL BE DETERMINED TO LARGE EXTENT BY INTERNATIONAL ECONOMY.

5. FOLLOWING MEETING OF BOARD OCTOBER 30, BANK OF SWEDEN ANNOUNCED THREE TECHNICAL DECISIONS DESIGNED TO ENCOURAGE FOREIGN BORROWING AND SOAK UP LIQUIDITY. BANK DECIDED (A) TO LOWER CASH RESERVE REQUIREMENT FROM 5 TO 2 PERCENT EFFECTIVE NOVEMBER 7, BUT CAUTIONED TWICE IN ITS ANNOUNCEMENT THAT PURPOSE OF MOVE WAS NOT TO RAISE RATE OF BANK LENDING; (B) TO RAISE LIQUIDITY RATION FOR THREE BIGGEST COMMERCIAL BANKS (POST-KREDIT BANKEN, SKANDI-UNCLASSIFIED

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NAVISKA ENSKILDA BANKEN, SVENSKA HANDELSBANKEN) FROM 34 TO 36 PERCENT FROM NOVEMBER 1; AND (C) TO RAISE RECOMMENDED LIQUIDITY RATION FOR SAVINGS BANKS AND AGRICULTURAL CREDIT INSTITUTIONS FROM 23 TO 24 PERCENT, ALSO FROM NOVEMBER 1.

6. SINCE HOUSING AND GOVERNMENT BONDS ARE INCLUDED IN CALCULATION OF LIQUIDITY RATION, INTENTION IS THAT MUCH OF SKR 3 BILLION TO BE RELEASED THROUGH LOWERING CASH RESEVE REQUIREMENT WILL BE

PLACED IN GOVERNMENT BOND ISSUES TO FINANCE SKR 2-BILLION
STIMULATIVE PACKAGE RECENTLY ANNOUNCED AS EMPLOYMENT SUPPORT
(REF B). ONCE FREED MONEY IS SOAKED UP BY BOND ISSUES, RAISING
OF LIQUIDITY RATIOS WILL REDUCE AVAILABILITY OF DOMESTIC CREDIT
AND ENCOURAGE BORROWING ABROAD.

7. COMMUNIQUE RELEASED BY BANK OF SWEDEN SAID THAT RAISING OF
LIQUIDITY RATIOS PROVIDES ADJUSTMENT FOR HIGHER LIQUIDITY
WHICH HAS APPEARED IN BANKING SYSTEM AS RESULT OF GROWTH OF
FOREIGN EXCHANGE RESERVES, DEEPENING OF CENTRAL BUDGET DEFICIT,
AND WITHDRAWAL OF INVESTMENT FUNDS DEPOSITED BY FIRMS IN CENTRAL
BANK. STRAUZ-HUPE

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